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SUBJECT: SOUTHERN TURKISH BUSINESSES WORKING IN IRAQ SUFFERING

REF: ANKARA 6848

1.(SBU) A southern Turkey regional Turkish-American Business Association (TABA) president and an active Turkish contractor in Iraq spoke with AMCON ADANA PO on 12/10 to express his concerns over the consequences of the ongoing trucker strike against SOMO and some DESC contracts. (Note: the strike was reported in the southern Turkey edition of the HURRIYET mass daily on 12/10. End Note.) He said that the reports of the strike were already driving up transportation rates for Turkish contractors working in Iraq up to 15% in the last two days. He said that this compounded already soaring construction material costs in Iraq itself, especially for ready-mix concrete, gravel and steel, whose prices had increased 45-60%, indeed to the point where he said they were best described as "war profiteering." "They say it is a surcharge for security and almost raise the price by fifty percent on everything, regardless of what our supply contracts say. They just reply 'take it or leave it' when we point out our contracts and there is no judge there to help you and only pressure from U.S. contractors to deliver on time on the other end. Something has to give," he said.

2.(SBU) He also pointed to shortages of gravel and other bulk construction materials in northern Iraq, dismissing as "ridiculous" some of the proposed solutions offered by U.S. contracting authorities, such as trucking in sand and gravel from Silopi in southeast Turkey, circulating in the Anaconda/Balad base camps.

3.(SBU) He reiterated that security concerns among his professional staff and workers about conditions in Iraq were taking a toll, both driving up his labor rates beyond the premises of his original contract bids and "drying up the pool of skilled construction labor." PO explained that the security situation in northern Iraq had been a major discussion topic in the recent trilateral Ankara meeting between Turkish, Iraqi and U.S. security officials, where there was serious and earnest consideration of new measures. The contact said that he had seen the press reporting, and appreciated the high level attention, but stated that "the reality of better security would be the only thing that changes these market problems. If this continues people from Turkey are not going to remain willing to go to Iraq" to help with reconstruction. He said many contractors that he knew were already losing money because of shifting business conditions and would not opt to bid again on future business in the region because of security concerns for their staff and capital.

4.(SBU) Finally, he reiterated that several Adana or Cukurova region-based contractors working with American firm KBR in northern Iraq continued to face serious payment shortfalls and erratic payment schedules, but had been unsuccessful in gaining payment schedule relief on their own inter-related loans to Turkish banks. He added that "the few (Turkish) banks who used to be willing to lend for Iraq business are not willing to do new loan business and are just pressing (clients) to pay off existing loans. This is driving all but the biggest Turkish companies out of Iraq business because there is no working capital available in the loan market." He said that his Iraq-related banking was with AK Bank.

5.(SBU) On a related note (reftel), he discounted the likelihood of regional boycotts against U.S. goods in southeastern Turkey, observing that "too many people in southeastern Turkey one way or another have an economic link to the U.S. now" or interest in those calling for a boycott to pay any attention to the recent strike call.

6.(SBU) The TABA president also noted a 12/9 Cukurova region local press report that over 3,000 workers had left work on or around the Incirlik air base (note: where 39th Air Base Wing is hosted by the Turkish Air Force 10th Tanker Wing. End Note.) to work in Iraq. He said that the reports was "very exaggerated," however he stated that many small Adana merchants with enterprises linked to the Incirlik presence either had explored doing business with a U.S. entity in Iraq or were conducting a parallel business to their Incirlik enterprise somewhere in Iraq. He estimated the total number of those Turkish business people to be "several hundred, not several thousand" and described their success rate at establishing new businesses in Iraq as "hit and miss." He said that these small business people also did not have the capital or skilled labor base to weather the stresses on commerce currently posed by regional

insecurity.

7.(SBU) Baghdad minimize considered.